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C O N F I D E N T I A L SECTION 01 OF 04 TOKYO 005655

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TAGS: [ECON](#) [EFIN](#) [PREL](#) [KGHG](#) [EAGR](#) [ETRD](#) [SENV](#) [JA](#)

SUBJECT: DNSA PRICE ENGAGES JAPANESE ON DOHA, BEEF, CHINA,
CLIMATE

Classified By: CDA Joseph R. Donovan for reasons 1.4 b/d.

Summary

11. (C) Assistant to the President and Deputy National Security Advisor for International Economic Affairs Daniel Price directly engaged Japanese politicians, business figures, and officials in Tokyo December 5 - 7 on the margins of the U.S./Japan Sub-Cabinet meetings and stressed the need to avoid drift and for Japan to join us in working to ensure our bilateral economic relations measure up to the promise inherent in our political relationship and the size and breadth of our economies. Specific issues DNSA Price raised in the meetings included the need for progress in the Doha Development Agenda, bilateral disputes over beef, medical devices and pharmaceuticals, cooperation on engaging China, climate and energy, and Japan's economic reform measures, including in terms of boosting foreign investment. End summary.

Engaging Japan on Multilateral and Bilateral Trade,
Economic Reforms, and Climate

12. (SBU) Assistant to the President and Deputy National Security Advisor for International Economic Affairs (DNSA) Daniel Price met Nomura Securities Chairman Junichi Ujiie, ruling Liberal Democratic Party (LDP) Policy Research Council Chairman Sadakazu Tanigaki, Ministry of Economy, Trade, and Industry (METI) Vice Minister Masakazu Toyoda, Ministry of Health, Labor, and Welfare (MHLW) Vice Minister Takeshi Erikawa, and former LDP Secretary General Hidenao Nakagawa in separate meetings on the margins of the U.S.-Japan Sub-Cabinet. He also met Minister of State for Economic and Fiscal Policy Hiroko Ota (reported septel).

13. (C) DNSA Price engaged Japanese interlocutors on the Doha Development Round, beef, medical devices and pharmaceuticals, climate change and energy policy, and Japanese domestic economic reform. His key messages included that the

President's highest international trade priority is the successful conclusion of the Doha Round and that Japan's agricultural interests are holding it back from necessary reform and from engaging fully in international negotiations.

He reiterated as well that Japan and the U.S. can and should do more to energize bilateral economic relations and cooperate on a broad range of global and multilateral issues, including climate change/meeting the world's energy needs and engaging China.

¶4. (C) Price rebuffed GOJ arguments for a slow phase-in of imports of U.S. beef (starting with raising the age limit to 30 months) and insisted Japan and the U.S. work toward setting a date certain to imports of all ages and cuts of U.S. beef based on OIE-approved international guidelines. In discussions of medical devices and pharmaceuticals, he focused on the role innovation plays in both the Japanese and U.S. economies, pointing out how Japan's plans to control healthcare costs by reducing reimbursements will undercut incentives for innovation and ultimately lead to decreased availability of life-saving drugs in Japan.

Beef and Agricultural Interests

¶5. (C) Explaining Japan's position on beef, Diet Member and LDP Policy Research Chairman Tanigaki said Japan was only at the beginning of discussions on relaxing import restrictions.

He agreed a solution needs to be reached as soon as possible, but added further scientific evaluation was necessary. Noting that the loss of traditional rural supporters had contributed to the LDP's defeat in July's Upper House elections, Tanigaki said the LDP wants to liberalize markets to make agriculture more competitive.

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However, the party cannot ignore voters.

¶6. (C) Former LDP Secretary General and Diet Member Nakagawa suggested a "two-step process" to resolve the beef issue, starting with raising the age limit for cattle to 30 months. DNSA Price pointed out, however, that many in the U.S. are apprehensive the second stage of such a plan would never arrive. Illustrating how GOJ actions perpetuate such fears, Price noted how a MHLW Vice Minister at the Sub-Cabinet meetings had rejected a U.S. proposal to discuss an information exchange on risk analysis in connection with improving food safety -- without even reading the proposal. Nakagawa responded with a single word -- "understood" -- before promising to encourage a more constructive approach from the bureaucracy.

Medical Devices and Pharmaceuticals

¶7. (C) Regarding pricing and other issues negatively affecting medical devices and innovative pharmaceuticals, MHLW Vice Minister Erikawa agreed with DNSA Price that innovation is important, and noted Japan's efforts to cut approval times for new drugs and medical devices. Erikawa observed drug prices in the United States are based on market forces, but that the government sets prices in Japan. Erikawa asserted, without providing any new support for the argument, that Japan's "special repricing" rule that cuts the prices of best-selling drugs is fair, is not harmful to companies experiencing the reductions, and would not reduce incentives for manufacturers to market drugs in Japan. DNSA Price, along with Commerce's Acting Under Secretary Padilla, emphasized measures that prevent companies from recouping their research and development costs, and thereby reduce incentives for innovation, are ultimately harmful to new drug development and availability.

China

¶8. (C) On the need for closer cooperation to foster China's constructive participation in the international economic system, METI Vice Minister Toyoda told DNSA Price that Japan

is much more integrated economically with China than the United States, which makes it harder to confront China on economic issues. He said pushing Beijing to lift equity caps was difficult, for instance, because the Japan Business Federation (Keidanren) does not want "instability" in China. Nonetheless, Toyoda said Japan is persuading China to speed up the appreciation of the yuan. (Note: Japan and China have since seen a diplomatic tiff over China's unilateral deletion of language regarding the yuan's appreciation from a joint communique. See septel. End note.) Toyoda also stressed the need to reach out to a number of ministries in China in order to seek solutions to problems; the GOJ side dealt with ten ministries in China in addressing intellectual property concerns. Reacting to DNSA Price's points on concerns EU Commissioner Mandelson and others had raised during the U.S./EU Transatlantic Economic Council meeting, Toyoda was pleased the current EU leaders are more wary about China than their predecessors had been.

¶9. (C) Nomura Chairman (and Keidanren official) Ujiie particularly stressed taking a cautious approach to China. He commended Treasury Secretary Paulson's recent speech on China's need to further open financial markets, but said there is great danger in pressing for too much too fast, because China's "fragile equilibrium" could be shattered by excessive reform. Ujiie asserted any turmoil would disproportionately hurt Japan, since China is now Japan's largest trading partner. Price said that, to the contrary, the danger lies in moving too slowly.

Doha Development Agenda

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¶10. (C) METI Vice Minister Toyoda told DNSA Price Japan wants the DDA concluded in time for President Bush to sign the completed agreement and the current Congress to approve it. However, when challenged on how continued over-attention to domestic agricultural interests hinders Japan from taking a leadership role or achieving all it could for its manufacturing and service sectors, Toyoda asked if the Administration could secure trade promotion authority (TPA) and argued partners feel the lack of TPA raises questions about the USG's seriousness. DNSA Price strongly remonstrated against using TPA as an excuse to do nothing. An agreement worth signing would have broad support from the private sector and would warrant TPA, continued Price, and Japan should not underestimate its own role in making an agreement easier or more difficult to achieve. Toyoda ultimately acknowledged METI's role and suggested vaguely that "if you can be flexible on one or two things, we can help."

Energy, Climate, a post Bali Roadmap and the G8

¶11. (C) In discussing climate and energy, LDP Policy Research Chairman and Diet member Tanigaki highlighted the need for China and India to be part of the dialogue on global warming and the environment. He added without U.S. leadership, they would not participate. Explaining he had taken part in the Kyoto Protocol negotiations, Tanigaki observed that there was room for new measures to counter increased greenhouse gas emissions and, as an example, suggested farmland could be included as a carbon sink. Tanigaki also asked for DNSA Price's help as the U.S. Sherpa to make the 2008 G8 Summit a success.

¶12. (C) METI Vice Minister Toyoda said Japan is pushing to establish an ad hoc working group in the UN Framework Convention on Climate Change for discussion of a post-Kyoto framework with the goal of presenting an effective pledge-and-review process (versus the binding commitments being pushed by Europe). Toyoda's "pledge and review, and recommendation, and assistance" mechanism would allow emerging economies to commit to greenhouse gas reduction measures. Japan, the U.S., and the EU could then provide

assistance to help finance new technologies to cut energy use, green house gas emissions, and so forth, as long as intellectual property rights were respected. DNSA Price pointed to the U.S./Japan factsheet on energy security, clean development, and climate change as embodying principles on which we should be able to move forward, noting that the architecture of a future agreement "how the elements fit together" would be the subject of the next Major Economies Meeting in January.

Japanese Economic Reform

¶13. (C) The Japan Business Federation (Keidanren) is reluctant to press the government on economic reforms for fear of destabilizing the Fukuda government, Nomura Chairman Ujiie told DNSA Price. Keidanren had advocated previously for an Economic Partnership Agreement (similar to an FTA) with the United States, but now the organization fears the political consequences of taking a forward-leaning stance.

¶14. (C) Former LDP Secretary General Nakagawa judged the political situation as just as fragile, but took a more optimistic outlook. Saying his "gut feeling" was that Japan's next Lower House election would take place in the first half of 2008, Nakagawa said he hopes to visit the United States after the election. Relations could be "recharged" then by emphasizing the vital importance of bilateral ties and the benefits both sides could receive from strengthening and deepening economic ties.

¶15. (U) The Assistant to the President cleared this message

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subsequent to his departure from Tokyo.
DONOVAN